

Message Text

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PAGE 01 MELBOU 01033 01 OF 02 040322Z

67

ACTION EA-14

INFO OCT-01 ISO-00 DOTE-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 DRC-01 /132 W
----- 015678

R 040110Z SEP 74

FM AMCONSUL MELBOURNE
TO SECSTATE WASHDC 2333
INFO AMEMBASSY CANBERRA
AMCONSUL SYDNEY
AMCONSUL BRISBANE BY POUCH
AMCONSUL PERTH BY POUCH

LIMITED OFFICIAL USE SECTION 1 OF 2 MELBOURNE 1033

CANBERRA FOR MONTGOMERY

E.O. 11652: N/A

TAGS: EIND, ETRD, ELAB, AS
SUBJECT: FURTHER REACTIONS TO INDUSTRIES ASSISTANCE
COMMISSION RECOMMENDATIONS ON THE AUSTRALIAN
AUTOMOTIVE INDUSTRY

REF: MELBOURNE 0838

SUMMARY: FOLLOW-UP DISCUSSIONS WITH EXECUTIVES OF THE
THREE U.S. AUTOMOBILE MANUFACTURERS IN AUSTRALIA (ALL
OF WHICH ARE LOCATED IN THE MELBOURNE CONSULAR DISTRICT)
DISCLOSED REACTIONS COMPARABLE TO THEIR EARLIER STATE-
MENTS REPORTED IN REFTEL, I.E., IF THE IAC REPORT IS
ACCEPTED IN ITS PRESENT FORM, IT WOULD SERIOUSLY
JEOPARDIZE, IF NOT STOP, THEIR MANUFACTURING OPERATIONS;
RESULT IN A FLOOD OF IMPORTS, PRIMARILY JAPANESE;
AND CREATE UNEMPLOYMENT MANY TIMES THAT ESTIMATED
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PAGE 02 MELBOU 01033 01 OF 02 040322Z

BY THE REPORT. ALL PREDICTED THE IAC REPORT WOULD

NOT BE IMPLEMENTED BY THIS LABOR GOVERNMENT IN ANY
FORM RESEMBLING ITS INITIAL PUBLICATION. END
SUMMARY.

1. THREE OF THE FOUR AUTOMOBILE MANUFACTURERS IN
AUSTRALIA ARE U.S. COMPANIES: TWO ARE LOCATED IN
MELBOURNE, ONE IN ADELAIDE. DISCUSSIONS WITH THEIR
TOP EXECUTIVES APPROXIMATELY A MONTH AFTER THEIR
INITIAL REACTIONS WERE RECORDED FOUND NO BASIC
CHANGE IN THEIR THINKING. THE CONSENSUS REMAINS
THAT IF THE REPORT WERE TO BE IMPLEMENTED AS FIRST
PUBLISHED AUTOMOBILE MANUFACTURING IN AUSTRALIA
WOULD ALL BUT CEASE AND IMPORTS WOULD EVENTUALLY
BECOME THE MAJOR SOURCE OF NEW AUTOMOBILES. CERTAIN
FACTORS, OTHER THAN THE MAJOR ONE OF UNEMPLOYMENT,
ARE ALSO SERIOUSLY MILITATING AGAINST ADOPTION OF
THE IAC PROGRAM, E.G., THE RATE OF INFLATION, THE
VALUE OF THE AUSTRALIAN DOLLAR AND INCREASES IN THE
COSTS OF PRODUCTION.

2. ALL OFFICIALS TOOK EXCEPTION TO THE IAC PROJECTED
LEVEL OF UNEMPLOYMENT WHICH CLAIMED ONLY ABOUT TWO
THOUSAND PERSONS WOULD LOSE THEIR JOBS; THE FIGURE
WAS MORE LIKELY TO BE IN THE NEIGHBORHOOD OF TWENTY
THOUSAND AND COULD GO MUCH HIGHER IF ALL OF THE
SECONDARY AND TERTIARY SUPPLIERS WERE CONSIDERED
AS WELL. THE EXECUTIVES WERE CONCERNED ABOUT INCREASING
COSTS, PARTICULARLY THE PERCENTAGES THEY WERE FORCED TO
ABSORB BETWEEN THE AMOUNT REQUESTED FROM THE PRICES
JUSTIFICATION BOARD AND THE AMOUNT AWARDED. THE
DIFFERENCE, ONCE REJECTED, COULD NEVER BE ASKED FOR
AGAIN AND THE ACCUMULATION OF THESE AMOUNTS OVER A
PERIOD OF TIME WAS BUILDING UP INTO A SIZEABLE AMOUNT.

3. THE DIRECTORS ALSO FELT THAT A CHANGE IN THE
LOCAL CONTENT RULE WOULD HELP RATHER THAN HINDER THEIR
PRODUCTION. NONE CONSTRUED THE GOA'S AMENDING OR
DROPPING THE RULE PRIOR TO 1979 AS A BREACH OF FAITH.
HOWEVER, ONE FACET OF THE PRESENT LOCAL CONTENT
REGULATIONS WHICH ALL HOPED WOULD BE ELIMINATED WAS
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PAGE 03 MELBOU 01033 01 OF 02 040322Z

THE NO REVERSION RULE, ENACTED A FEW YEARS AGO TO
PROTECT LOCAL SUPPLIERS. THIS RULE PROHIBITS RETURNING
TO A FOREIGN SOURCE WITHOUT GOVERNMENT PERMISSION ONCE
AS AUSTRALIAN SOURCE IS USED.

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PAGE 01 MELBOU 01033 02 OF 02 040317Z

67

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FM AMCONSUL MELBOURNE
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INFO AMEMBASSY CANBERRA
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LIMITED OFFICIAL USE SECTION 2 OF 2 MELBOURNE 1033

4. COMMENT: IT IS OBVIOUS THE GOVERNMENT UNLEASHED
CONTROVERSIAL FORCES WHEN IT RELEASED THIS REPORT.
A STEADY CONTERATTACK FROM INDUSTRY AND THE UNIONS
FORCED THE P.M. TO APPOINT A SPECIAL COMMITTEE MADE UP
OF MEMBERS FROM GOVERNMENT, INDUSTRY AND THE UNIONS
WHICH IS CHECKING WITH ALL PARTIES CONCERNED. PREMIER
DUNSTAN OF SOUTH AUSTRALIA HAS ATTACKED THE REPORT IN
A STRONG CAMPAIGN TO SAVE THE SINGLEMOST IMPORTANT
INDUSTRY IN HIS STATE. THEINDUSTRY ITSELF IS HAVING
A DIFFICULT TIME BECAUSE THE CREDIT SQUEEZE HAS CUT
THE NUMBER OF NEW CAR PURCHASES RECENTLY; EXPORTS ARE
ABOUT ONE-THIRD OFF DUE TO A LACK OF INTEREST IN
LARGER VEHICLES; NEW ZEALAND'S NEW TAXING PLAN WHICH
FAVORS SMALL CARS, AND THE CANCELLATION OF THE EXPORT
INCENTIVE SUBSIDY BY THE GOA. CONGEN'S PREVIOUS
REPORTING INDICATED THE IAC REPORT WOULD NOT BE
IMPLEMENTED IN ITS INITIAL FORM BECAUSE OF UNION
OBJECTIONS TO THE LOSS OF SO MANY JOBS. THE PAST
MONTH HAS PROVED THIS IN THE STRONGEST TERMS. WHAT
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PAGE 02 MELBOU 01033 02 OF 02 040317Z

IS NOW LIKELY TO EMERGE IS: (1) AUTOMOBILE MANUFACTURING PLANTS WILL CONTINUE IN ORDER TO PROVIDE FULLER EMPLOYMENT (2) THE LOCAL CONTENT RULE WILL BE DECREASED FROM 95 PERCENT TO EITHER 80 OR 85 PERCENT (3) THE LOCAL CONTENT LEVEL WILL PROBABLY BE AVERAGED BY PRODUCTION TOTALS ALLOWING SOME MODELS TO HAVE MORE LOCAL CONTENT AND OTHERS LESS (4) CKD ASSEMBLY PLANTS WILL BE RETAINED (5) THERE WILL PROBABLY BE A TEN PERCENT HIGHER TARIFF ON FULLY ASSEMBLED CARS THAN ON COMPONENTS (6) A QUOTA WILL PROBABLY BE ESTABLISHED TO CONTROL THE IMPORT OF FULLY ASSEMBLED AUTOMOBILES WHICH WILL BE BASED ON UNEMPLOYMENT LEVELS AND CHANGED EACH MONTH IN RELATION TO THOSE LEVELS (7) THE JAPANESE WILL BE FORCED TO MAKE A DECISION AND MORE THAN LIKELY WILL BEGIN MANUFACTURING IN AUSTRALIA (8) THE PRESENT FOURTH MANUFACTURER, BRITISH LEYLAND, WILL BE FORCED TO RETURN TO ASSEMBLING CKD CARS, HOWEVER, ITS FUTURE IS STILL PROBLEMATIC, DUE MORE TO A POOR PRODUCT THAN ANY OTHER CONDITION.
BROWN

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